

LATE TESTIMONY

PCI

Property Casualty Insurers
Association of America

Shaping the Future of American Insurance

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To: The Honorable Robert Herkes, Chair
House Committee on Consumer Protection & Commerce

From: Mark Sektan, Vice President

Re: **HB 1688 HD1 - Relating to Motor Vehicle Insurance – In Opposition**

Date: Monday, February 6, 2012
2:00 p.m.; Conference Room 325

Aloha Chair Herkes and Committee Members,

The Property Casualty Insurers Association of American (PCI) respectfully opposes HB 1688 HD1, Relating to Motor Vehicle Insurance because it is unnecessary and would adversely impact a large percentage of drivers. Attached for your information is a study of the estimated impact this bill would have on Hawaii's motorists.

To summarize our findings, HB 1688 HD1 proposes to raise the state's motor vehicle insurance financial responsibility (FR) limits from \$20K/\$40K/\$10K to \$50K/\$100K/\$10K. In this case, greater amounts of bodily injury (BI) liability coverage will be available to those drivers who now have less than \$100K/\$200K limits.

- HB 1688 HD1 would give Hawaii the highest FR limits in the nation.
- Over 90% of existing claims result in bodily injury claims under \$20,000. The current limits are more than adequate to meet these needs.
- HB 1688 HD1 could result in higher insurance rates for almost 30% of the insured drivers in Hawaii.
- The drivers likely to see the largest increase are low income drivers who may choose to drop coverage.
- Hawaii's uninsured motorist population has been declining; its ranking has improved from 24th highest to 31st highest over the last five years. HB 1688 HD1 could lead to an increase in the uninsured motorist population.
- Drivers should be able to choose their own FR limits. HB 1688 HD1 could very well lead to much higher prices for unnecessary coverage.

Given today's economic crisis, we caution members that it is not sound policy to require anyone to pay more for additional coverage especially when it's not necessary.

For these reasons, we urge you to vote against passing this bill.

Attachment

UPDATED ANALYSIS OF HAWAII HB 1688: PROPOSAL TO RAISE THE MOTOR VEHICLE FINANCIAL RESPONSIBILITY LIMITS

Introduction – The Estimated Impact of Amended HB 1688 on Auto Insurance Rates

Hawaii's amended House Bill 1688 proposes to raise the state's motor vehicle insurance financial responsibility (FR) limits from \$20K/\$40K/\$10K¹ to \$50K/\$100K/\$10K. In this case, greater amounts of bodily injury (BI) liability coverage will be available to those drivers who now have less than \$100K/\$200K limits. The bill does not affect the property damage (PD) liability limit of \$10K, which remains the same.

Based on 2007 data compiled by the Insurance Research Council, PCI estimates that had updated HB 1688 already been enacted, **about 30% of the insured drivers in Hawaii would have been negatively impacted**. Raising the FR BI limits to \$50K/\$100K could have meant that these drivers with lower coverage might have seen their BI rates go up by a significant amount; the actual increase would have depended on the insurance carrier and their current limits.

To provide further insight on the effects of the bill, the table below presents PCI's approximations of one insurer's BI rate increases, had amended HB 1688 gone into effect. The drivers who would have been affected the most are the ones with the lowest limits (\$20K/\$40K); they could have seen their BI rates go up 66 percent, possibly paying anywhere from \$90 (in Kauai) to \$171 (in the Big Island) more a year depending on where they live.

If Amended HB 1688 Had Been Enacted: Estimated Annual BI Rate Increase For Policyholders With:				
	\$20K/\$40K Limits		\$25K/\$50K Limits	
	%	\$	%	\$
Honolulu	66%	\$154	41%	\$112
Maui	66%	\$150	41%	\$108
Kauai	66%	\$90	41%	\$65
Big Island	66%	\$171	41%	\$124

It should be noted that policyholders who already had higher BI limits of \$50K/\$100K or above (about 70% of the state's drivers) would not have been hurt by this bill. Instead, only those with lower amounts would have been penalized – these are typically the ones with less income and fewer assets. Passing amended HB 1688 also would have meant a **loss in the ability to choose the BI coverage levels that best suit their needs**.

Raising FR Limits is Impractical and Unnecessary

Supporters of amended HB 1688 may say that the state's minimum coverage levels are not adequate to cover the cost of injuries in today's health care market. However, the cost of most auto injury

¹ FR limits of \$20K/\$40K/\$10K mean coverage up to \$40,000 for all persons injured in an accident, subject to a limit of \$20,000 for one individual, and \$10,000 coverage for property damage.

claims in Hawaii is still quite low. According to a sample of 2007 data compiled by the Insurance Research Council, PCI estimates that **roughly 9 out of 10 (86%) of this state's auto BI injury claims resulted in total economic losses of less than \$20,000** – in fact, the average amount of these claims was about \$10,000 in 2007, or \$11,100 inflated to 2010 dollars.²

Since so many claims do not even reach the current minimum per-person limit of \$20,000, there is no need to require 30% of the state's drivers to raise their coverage limit and pay more, especially when this amount would only be superfluous. The current limits of \$20K/\$40K are appropriate for most people; those who want to have greater protection (i.e., higher limits) are certainly free to purchase them.

The Estimated Impact of Updated HB 1688 on Hawaii's U.M. Population Ranking

Hawaii's uninsured motorist population has been declining; its ranking has improved from 24th highest to 31st highest over the last five years.³ Had the FR limits been raised, this could also have caused the U.M. population to deteriorate, which is not a desirable outcome. If this had occurred, the U.M. rate for all remaining insured drivers in the state may have gone up even more due to greater exposure to losses caused by motorists without coverage.

Rather than requiring those who can least afford higher limits to buy more coverage, it would have been more appropriate to allow these individuals to purchase the level of insurance they can afford rather than force them to go without coverage at all.

Conclusion

Given today's economic crisis, it is not sound public policy to require anyone to pay more for additional coverage especially when it is not necessary, nor does it make sense to adversely impact the large majority of drivers. If the intent of amended HB 1688 is to reflect today's reality in terms of costs, then the FR limits should remain as they are. With \$50/\$100 limits, Hawaii would have the highest BI financial responsibility limits in the nation, along with two other states (Alaska and Maine; Wisconsin repealed its F.R. limits of 50/100 in Feb. 2011).

Had amended HB 1688 been enacted already, not only would it have prevented most of Hawaii's drivers from selecting the limits that they need and want, but it could very well have led to much higher prices for unnecessary coverage. Most people simply cannot afford this additional economic hardship. Keeping costs down should be the most significant consideration for Hawaii's consumers – amended HB 1688 should be defeated. In this way, consumers can continue to have greater options in their auto insurance and at more affordable prices.

The Property Casualty Insurers Association of America (PCI) is a national trade association consisting of more than 1,000 insurers of all sizes and types. Its members represent 38.3 percent of the total general insurance business and 44.0 percent of the total personal auto business in the nation. In Hawaii, PCI members represent 41.0 percent of the personal auto market.

² Economic loss refers to the medical loss, wage loss and other expenses related to the claim. The \$11,100 amount is derived from raising \$10,000 up to a 2010 level, using U.S. CPI Medical Care inflation.

³ Insurance Research Council, *Uninsured Motorists*, 2011 edition